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S E C R E T SECTION 01 OF 04 KATHMANDU 001321

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STATE FOR SA/INS, PM AND INR
LONDON FOR POL/GURNEY, NSC FOR MILLARD

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TAGS: [PTER](#) [PGOV](#) [PREL](#) [PHUM](#) [NP](#)

SUBJECT: NEPAL: PEACE PROCESS PROGNOSIS DIM

REF: (A) KATHMANDU 1099 (B) KATHMANDU 1175 (C)
KATHMANDU 1262 (D) KATHMANDU 1032

Classified By: Ambassador Michael E. Malinowski for Reasons 1.5 (b,d)

1. (S/NF) Summary. Maoist activities in violation of the code of conduct, including extortion, harassment and abductions, have increased since late May, dramatically in the last couple of weeks. In particular, Maoists have stepped up efforts to rebuild their war chest with the possible objectives of bolstering their stocks of arms and ammunition, paying salaries to militants, and/or buying political respectability. At the same time, rhetoric by the Maoist leadership against the Government of Nepal has grown more vitriolic. Maoist rhetoric against the United States increased several weeks ago as well, but appears to have tapered off more recently. A truncated negotiating team, limited by Prime Minister Thapa's failure to bring the legal political parties into the government, has delayed resumption of formal peace talks. Although informal talks began July 12, formal negotiations are on hold until the two sides concur on what was agreed at the last round of talks. Statements and actions by other actors, such as the Royal Nepal Army, National Police and the Palace, could place increasing strain on the cease-fire. It now appears that the Maoists are preparing to abandon the negotiations if they cannot obtain a commitment from the GON for an unrealistic demand to restrict army movements, and will likely blame the Government if they resume violence. End Summary.

Increase in Maoist Activity

2. (C) Since late May, the insurgents have increased sharply activities in violation of the code of conduct agreed to by the Maoists and the Government of Nepal (GON). Relaxed restrictions during the cease-fire have allowed the Maoists to increase their presence in areas where they were less active and to continue to intimidate the population in areas not under sustained GON control. In some areas, the Maoists continue to prohibit the GON from re-establishing a presence and providing services.

3. (S/NF) Reports of Maoist extortion, harassment, abductions, recruitment and training have become more frequent (Ref A). All of the international chambers of commerce have received complaints from member companies that the Maoists are regularly harassing and extorting money from them in unprecedented amounts. Reports from the countryside indicate that the insurgents are taxing harvests, development projects, drug trafficking, and remittances, as well as forcing villagers to pay for 'membership cards' into the Maoist organization (Refs B, C). Press reports indicate that since the end of May the Maoists have abducted 65 people and killed 6 others as compared to 148 abductions and 8 killings from January through May. (Note. GON security forces reportedly have killed 6 suspected-Maoists in the period from January through May and another 14 people since late May. End Note.) Maoist military training has been ongoing, with the Royal Nepal Army (RNA) reporting over 150 known training exercises since the cease-fire was declared in January.

4. (S/NF) The increase in insurgent activity coincided with the May 30 resignation of then-Prime Minister Lokendra Chand's government and was likely a reaction to political uncertainties over the new government leadership. With Chand's resignation, the first GON negotiating team was dissolved; talks with the Maoists have not resumed since the second round was held May 9. Prime Minister Surya Bahadur Thapa has appointed two cabinet members to the negotiating team with the intention of including negotiators from the main political parties once, and if, they join the government. In the meantime, Information Minister Kamal Thapa announced publicly in late June the GON's willingness to resume negotiations. Informal meetings began July 12, but formal negotiations are on hold until the two sides concur on what was agreed at the last round of negotiations. Well-placed Embassy contacts indicate that the Thapa government is preparing to resume the negotiations in a more systematic, professional way than was done by previous GON

negotiators. However, most of the Maoist leadership, including the negotiating team, has been conspicuously absent from the capital since early June, apparently (and inexplicably) fearing preemptive arrests by the Government.

Maoist Rhetoric: Accusations against the GON and United States

15. (SBU) Maoist rhetoric has grown increasingly negative since the Thapa government came to power on June 4 (Ref B). The rhetoric's focus has been on accusations that the GON has been violating the code of conduct and on warnings against "foreign interference," placing particular emphasis on alleged interference from the U.S., UK and, to a lesser extent, India. Maoist political leaders continue to press for a round table meeting with the King and political parties, an interim cabinet that would include Maoist leaders and a constituent assembly that would overhaul the constitution, with special attention to severing the King's authority over the army.

16. (S/NF) Although Maoist anti-American rhetoric has tapered off in the last two weeks, that rhetoric in the recent past targeted the Maoists' formal inclusion on the U.S. Government's terrorist watch-list as well as U.S. military and economic support to the GON. In a press release on June 29, Pushpa Kamal Dahal, alias Prachanda, Maoist supreme leader, declared that there was a "serious conspiracy from within and outside the country" to derail the peace process. Leftist newspapers and surrogate covert Maoist supporters have reported that the U.S. is encouraging the GON to take a hard-line approach to negotiations with the Maoists, falsely suggesting that the U.S. is pushing the GON towards breaking the cease-fire.

Maoist Fund-Raising Objectives: Guns or Butter?

17. (S/NF) The insurgents' aggressive campaign of fund-raising through extortion could have a number of objectives. First, the Maoist leadership could be building up its war chest in anticipation of a break in the cease-fire and resumption of hostilities. Post has received information that the Maoists continue to seek and import arms and ammunition and have the financial wherewithal and capacity to use explosives albeit, still at a fairly unsophisticated level. Second, the RNA reports that the Maoist leadership's financial needs have increased because it has been obliged to begin offering salaries comparable to those of the RNA in order to retain its mid- and low-level cadres. The Army leadership tells us that its information indicates that the Maoist organization is under stress due to low morale, a lack of resources and the perception by the rank and file that the leadership is faltering. Third, the Maoist leadership could be building up its treasury in order to buy political respectability and to assist its effort at a 'soft landing' within the political mainstream. Another possibility, supported by some intelligence, is that the Maoists will pursue both military capability and political respectability simultaneously by sending its military wing underground while pursuing political advantage as a legitimate party.

Splits Within the Maoist Camp?

18. (C) The Maoist organization is structured with a Central Committee of roughly 50 members and smaller District Committees led by District Commanders. How the insurgents approach recruitment, training and extortion at the district level depends largely on the personality of the District Commander. Consequently, in some districts, there have been few incidents of abduction or forceful recruitment, while in others there have been many. However, in all districts, even those considered less Maoist-affected, local Maoists have held mass gatherings and continue to collect money through taxes and extortion.

19. (S/NF) There appears to be some disconnect between the district-level Maoist rhetoric and that at the national level. In Chitwan, for example, during their mass meetings, local Maoists reportedly have expressed deep commitment to the peace process and unwillingness to return to the jungle. However, national-level rhetoric continues to be hard-line, reasserting that the Maoists are willing and able to resume guerrilla warfare. In late June, the Maoist supreme leader Prachanda declared that there would be a "great disaster" if the peace negotiations were disrupted. One worrisome consequence of this disconnect is that it is not certain that all the district commanders would obey a central order to disarm if a political settlement were reached in Kathmandu.

110. (S/NF) There may be some increased strain also within the Maoist Central Committee. The political leadership headed by Dr. Baburam Bhattarai reportedly is more interested in

working with the disaffected political parties and becoming part of the political mainstream than the military arm led by Ram Bahadur Thapa (alias Badal) and the Maoist supreme commander Pushpa Kamal Dahal (alias Prachanda). However, reports from the field indicate that the Maoist military cadres, with some exceptions, are continuing to execute orders faithfully from the politburo. Post believes that there is a strong possibility that the Maoist leadership could stage a falling-out between the political and military wings, thereby allowing the political leadership to continue its dialogue with the GON while the military wing uses terror and violence to reinforce the Maoist position, a la tactics used by the IRA/Sein Fein and the Palestinian Liberation Organization. RNA leaders suggest that they are aware of this possibility and are prepared to counteract it, but have not specified how.

Grim Prognosis for Peace Process

11. (S/NF) The dramatic increase in violations of the code of conduct by the Maoists, the delay in peace talks, the intransigence of the legal parties, increasingly negative rhetoric by the Maoists, and possible dissonance within the Maoist hierarchy are putting growing pressure on the cease-fire. Some suspect that top Maoists are in hiding already for fear that Prime Minister Thapa's new government intends to break the cease-fire unilaterally and seize the Maoist leadership. The government is coming under increased pressure from a growing number of victims of the Maoist extortion campaign to put a stop to it. That likely would result in the arrests of some key Maoists including some known leaders. For talks to resume, the Maoists have indicated that Thapa's government must confirm in advance its acceptance of agreements allegedly reached during the second negotiating round. However, because there are no written records of those talks, controversy continues, particularly over whether the previous GON negotiating team agreed to limit the RNA to within 5 kilometers of its barracks.

12. (S/NF) All sides--the Maoists, RNA, National Police and Palace--have made statements or are acting in ways that could aggravate the fragility of the cease-fire. RNA leaders have warned that they are prepared to implement martial law in the far west and east of the country if the cease-fire breaks. On July 6, the Inspector General of Police issued an arrest warrant on extortion charges for Kumar Dahal (alias Vijay), the Maoist commander in the Kathmandu Valley who claimed responsibility for the murders of two Embassy security personnel in December 2001 and November 2002. If the arrest takes place, the Maoists might use it as an excuse to break the cease-fire, claiming a direct attack on the party leadership. Meanwhile, King Gyanendra appears willing to take a more assertive role. In a private conversation with the Ambassador, the King suggested that if Prime Minister Thapa is unable to win the cooperation of the political parties, he could be forced to consider a range of possible options." The only prognosis on which there is much agreement among our best contacts is that the future of peace negotiations looks increasingly grim.

MALINOWSKI